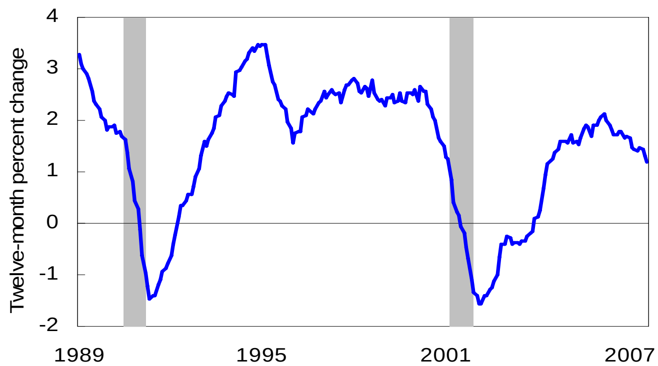
Joint Economic Committee
WEEKLY ECONOMIC DIGEST
Senator Charles Schumer, Chairman
Congresswoman Carolyn Maloney, Vice Chair
September 10, 2007

ECONOMIC NEWS

August Jobs Report Clarifies Weakening Trends

Payrolls stagnated in August. Total payroll employment at nonfarm establishments decreased by 4,000 jobs last month, as growth of private-sector payrolls slowed and government employment declined. Financial markets had expected a gain of 110,000 jobs overall. Total payroll employment has grown at an average monthly rate of 44,000 jobs over the past three months, in sharp contrast with the average monthly gains of 147,000 jobs in the first five months of the year. Over the past 12 months, payrolls have grown by only 1.2 percent, substantially below the pace of job growth during the 1990s expansion (see chart).

Change in Nonfarm Payroll Employment



Sources: Bureau of Labor Statistics, U.S. Department of Labor; and National Bureau of Economic Research.
Note: The gray areas indicate periods of recession as determined by the National Bureau of Economic Research.

Growth of private payrolls slowed sharply and pervasively last month. Employment in private-sector establishments rose by 24,000 jobs in August, following a gain of 120,000 jobs in July. Private goods-producing industries shed 64,000 jobs last month, following a 10,000 job decline in July. The payrolls of private service-producing industries grew by 88,000 jobs in August, well below a 130,000 job gain in July.

Declines in employment and labor force left the unemployment unchanged in August. Unemployment remained at 4.6 percent of the civilian labor force last month, reflecting largely offsetting declines in both employment and labor force. The percentage of the population with a job dropped 0.2 percentage point to 62.8 percent last month, while the labor force participation rate (the percentage of the population working or actively seeking work) declined 0.3 percentage point to 65.8 percent. Both measures have declined by more than half a percentage point since the start of the year, and are now about 1½ percentage points below their levels in March 2001 when the recession began.

IN FOCUS

Growth Risks Mount as Housing Slumps

A number of economic indicators issued last week made clear that the housing sector continues to be the weak point of the American economy. **Along with the disappointing jobs report, these indicators have sharpened concerns**—concerns underscored by Federal Reserve Chairman Benjamin Bernanke in his speech at the Jackson Hole Conference on August 31—**that the persistent housing slump represents a serious near-term risk to overall economic growth.**

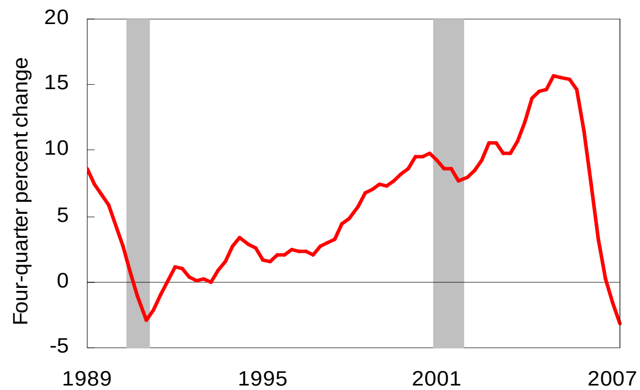
Last week, the Federal Reserve released its "Beige Book," a compendium of assessments of economic conditions by region. The latest report, prepared for the Fed's next policy meeting on September 18, finds that, **over the past six weeks, housing sales and construction tended to weaken further in most regions.** Inventories of unsold new homes were generally reported to be high. Finally, most regions reported tighter lending standards for housing loans.

In another report issued last week, the National Association of Realtors reported that pending sales of existing homes fell 12.2 percent in July. Pending sales reflect the number of sales for which a contract has been signed but the transaction has not yet closed in a given month, and thus provide an indicator of existing home sales in coming months. Sales of existing homes declined by 8.3 percent,

Continued on reverse...

SNAPSHOT

U.S. Home Prices: S&P/Case-Shiller Index



Sources: Standard & Poor's and National Bureau of Economic Research.
Note: The gray areas indicate periods of recession as determined by the National Bureau of Economic Research.

THE WEEK AHEAD

DAY	RELEASE
Monday , Sep 10	Consumer Credit (July 2007)
Tuesday, Sep 11	U.S. International Trade in Goods and Services (July 2007)
Thursday, Sep 13	Treasury Statement of Receipts and Outlays of the U.S. Government (August 2007)
Friday, Sep 14	U.S. International Transactions (Second Quarter 2007) U.S. Import and Export Price Indexes (August 2007) Advance Monthly Sales for Retail and Food Services (August 2007) Industrial Production and Capacity Utilization (August 2007) Manufacturing and Trade Inventories and Sales (July 2007) Reuters/U. of Michigan Index of Consumer Sentiment (September 2007, prelim.)

Friday, Sep 14th: U.S. Current Account Balance, Q2

THE ECONOMY AT A GLANCE

KEY INDICATORS	MONTH			QUARTER			YEAR	
	Aug	Jul	Jun	2007 Q2	2007 Q1	2006 Q4	2006	2005
Real GDP Growth (%)	—	—	—	4.0	0.6	2.1	2.9	3.1
Unemployment (% of labor force)	4.6	4.6	4.5	4.5	4.5	4.5	4.6	5.1
Labor Productivity Growth (%)	—	—	—	1.8	0.7	1.8	1.0	1.9
Labor Compensation Growth (%)	—	—	—	3.6	3.2	3.6	3.1	3.3
CPI-U Inflation (%)	n.a.	1.2	2.4	6.0	3.8	-2.1	3.2	3.4
Core CPI-U Inflation (%)	n.a.	2.4	2.4	1.9	2.3	1.9	2.5	2.2

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of Labor Statistics, Department of Labor.

Notes: Except where otherwise noted, values in the table represent percent changes at seasonally adjusted annual rates. Productivity is output per hour worked in private nonfarm businesses. The Employment Cost Index is for civilian workers in government and business. Core CPI-U inflation is the percent change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The designation "n.a." denotes that data are not yet available.

IN FOCUS (Continued)

over the first seven months of the year, and July's drop in pending sales suggests that weakness in sales is likely to persist.

The direct effect of the housing slump on slowing overall economic growth has been considerable already. Since mid-2005, real (inflation-adjusted) residential investment has declined at a 9.3 percent annual rate. That decline has sliced about 0.5 percent a year off the pace of overall economic growth over the past 2 years, and 0.9 percent over the past year alone. The bulk of residential investment reflects construction spending for new homes. Because homebuilders are carrying large inventories of unsold homes (about 7½ months at current sales rates), once housing demand picks up, it will still take some time for that recovery to translate into new homebuilding and residential investment.

Last week's indicators suggest that the end of the housing slump is not yet in sight. That has two important implications for the near-term outlook for economic growth. **The housing slump will continue to exert a direct drag on overall economic growth by depressing residential investment further. And sharp declines in home prices since mid-2005 (see Snapshot) are likely to persist and, to the extent they depress the overall value of household wealth, to temper near-term growth in consumer spending.**

Economists disagree on the precise magnitude and duration of the wealth effect on consumption. However, there is considerable agreement that (1) the magnitude of the decline in home prices already witnessed would significantly affect household wealth; and (2) a decline in wealth would temper consumer spending for some time. Accordingly, many forecasters are trimming their consumption projections to accommodate wealth declines implied by the falling home prices to date. For example, the Congressional Budget Office forecasts a decline in wealth that would shave about 0.3 percentage point off the average growth in consumption in 2007 and 2008.